

RetirementNews

1ST QUARTER 2000

ARIZONA STATE RETIREMENT SYSTEM

1999 Year in Review

LETTER FROM JIM JENKINS, CHAIRMAN

ASRS RETIREMENT BOARD

Dear ASRS Members,

The year 1999 proved to be an eventful one for the Arizona State Retirement System (ASRS). In this issue of *Retirement NEWS*, I am pleased to present a summary of information in the Annual Financial Report for the period ending June 30, 1999. We continue to produce a number of measurable successes, as you will read below.

Investment performance

Perhaps one of the most exciting measures of success comes from the fund's investment performance. Guided by the Board's long-term strategy, the ASRS was recognized as the second top-performing public pension plan in the nation.

The ASRS posted an investment return of 16.8 percent for the year ending June 30, 1999, according to Mercer Investment Consulting, Inc., consultant to the ASRS. The annualized return for the last three years was 19.5 percent per year. The five-year annualized return was 18.6 percent per year, and the ten-year average return was 14.2 percent per year.

ASRS achievements

Among the many achievements in the 1998-99 fiscal year, the ASRS Board and staff implemented provisions enacted by 1999 legislative action and accomplished the following:

- ★ Provided for greater benefits by increasing the retirement multiplier factor from 2.0% to 2.1% for non-retired members and by increasing the retirement benefit by 5% for ASRS members who retire prior to July 1, 2000.

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COMMENTS?

The Arizona State Retirement System continues to appreciate your comments and suggestions. We encourage you to write ASRS Director LeRoy Gilbertson with your concerns. Please include your name, telephone number and Social Security number on all correspondence. Thank you for your input.

Send letters to:

LeRoy Gilbertson, Director
Arizona State Retirement System
P.O. Box 33910
Phoenix, AZ 85067-3910

Continued on page 2

Preparing your 1999 income taxes

The ASRS would like to provide a few tips to assist in understanding your 1099R tax form.

Box 1 reflects your Gross distribution, which is the total of all pension benefits during the tax year. The amount in Box 2a is your Taxable amount. This is the amount of your pension that is "taxable," based on information available to the ASRS. Amounts in this box include income received from a cost-of-living adjustment (COLA), but does not include amounts received from health insurance premium benefits or amounts excluded as already taxed.

The difference between Box 1 and 2a, the amount excluded from taxes, is reflected in Box 5, titled Employee Contributions or Insurance Premiums.

Box 5 is not the correct place to determine the net deductions for your health insurance premiums. To find your net deductions, refer to your December payment summary and subtract the year-to-date amount from your insurance premiums (HI PREM) by your year-to-date premium benefit (PREM BEN), if applicable.

The above is intended only to clarify and is not provided as tax advice.

LETTER FROM THE BOARD CHAIRMAN (continued)

Continued from page 1

- ★ Modified the calculation of the cost-of-living adjustment (COLA), which resulted in an increase in the amount given to our retired members for a COLA.
- ★ Completed and implemented the demographics module of the ASRS' new computer database, PERIS (Public Employee Retirement Information System). This module will allow us to collect enhanced data, such as telephone numbers and e-mail addresses, to more quickly and better respond to ASRS members.
- ★ Developed and unveiled the first ASRS website. (www.asrs.state.az.us)
- ★ Established an on-going program to survey ASRS members about overall satisfaction with our products and services. This program will develop more and better performance measures to ensure delivery of quality services.
- ★ Instituted an employee salary administration plan that ties salary increases to individual performance and overall member satisfaction.
- ★ Expanded the service purchase program to allow purchase by payroll deduction.
- ★ Upgraded the ASRS telephone system. This continual process eventually will integrate the Tucson office and our health insurance vendors into the Member Service Call Center and will provide the technology needed to link the call center with future computer applications.

Transition into Y2K

The ASRS entered the Year 2000 without a hitch. The ASRS created a Y2K task force to ensure contingency plans were in place and to develop generalized solutions to any potential problems. The key to our successful transition into the new year was project management.

The ASRS continues to put forth every effort to make sure our systems, both internal and those of our vendors, maintain the same high standards of quality that are currently in place and will be made available in the future.

I invite you to please stop by and see us at one of our Board meetings, or contact the ASRS and let us know how we are doing. I am proud of our accomplishments in 1999, and it is an honor to represent you as chairman of the ASRS Retirement Board.

Jim Jenkins

Chairman of the ASRS Retirement Board

Growing by the numbers

Below is a snapshot of the Arizona State Retirement System's membership, with average age, service and income, as of June 30, 1999.

TOTAL MEMBERSHIP	306,767
Non-Retired Members	
Total Number of Active Members	176,368
— Number of State Employees	42,641
— Number of Teachers	57,653
— Number of Political Subdivision Employees	76,368
Average Age	43.4
Average Years of Service	8.3
Average Annual Salary	\$29,329
Total Number of Inactive Members	69,912
Total Number of Non-Retired Members	246,280
Retired and Long-Term Disability Members — Plan	
Total Number of Retired Plan Members	55,104
Average Age	70.6
Average Years of Service	18.2
Average Monthly Benefit	\$1,024
Total Number of Long-Term Disability Members	3,680
Retired Members — System*	
Total Number of Retired System Members	1,703
Average Age	75.8
Average Years of Service	12.0
Average Monthly Benefit	\$942

*Members who participated in the defined contribution program, which no longer is open to new members



PRE-RETIREMENT SEMINARS

The following is a list of upcoming pre-retirement seminars in metro Phoenix and Tucson. **Due to limited space, advance registration is required.** Call (602)240-2000 in Phoenix, (520)239-3100 in Tucson, or toll-free at 1(800)621-3778, to register. The ASRS also offers group meetings and workshops. Call the above number for details. The workshop schedule is available on page 7. *Please note that Saturday meetings follow an abbreviated format.

Thurs., April 6, 2000
Estrella Mountain
Community College
3000 N Dysart Rd.,
Estrella Hall, 2nd Floor
9 a.m. to 3 p.m.

Sat., April 15, 2000*
ASRS Phoenix Board Rm
3300 N Central Ave, 10th Flr
8:30 a.m. to 12:30 p.m.

Wed., April 26, 2000
ASRS Phoenix Board Rm
3300 N Central Ave, 10th Flr
9 a.m. to 3 p.m.

Wed., April 26, 2000
ASRS Tucson Board Rm
7660 E Broadway, Ste 108
9 a.m. to 3 p.m.

Wed., May 13, 2000
ASRS Phoenix Board Rm
3300 N Central Ave, 10th Flr
9 a.m. to 3 p.m.

Statement of Revenues and Expenses (as of June 30, 1999)

Revenues

Member Contributions	\$179,086,642
Employer Contributions	179,086,642
Member Purchase of Service	46,170,568
Net Investment Income	<u>2,848,321,337</u>
TOTAL	\$3,252,665,182

Expenses

Retirement Benefits	\$627,612,050
Health Insurance Benefits	34,935,156
Long-Term Disability Benefits	39,839,055
Survivor Benefits	11,484,518
Member Refunds	26,108,152
Administrative Expenses	12,233,562
Transfers to other systems	1,008,726
Other	<u>2,110,385</u>
TOTAL	\$755,331,604
Net increase	\$2,497,333,578

The net increase is the excess of revenue over expenses, which is income to the Retirement Fund that is invested for future benefits.

ASRS Total Assets

The ASRS' assets continue to grow, using security as the principal consideration in our investments. As of June 30, 1999, the retirement system was worth \$22 billion.

FY 99	\$22 billion
FY 98	\$20 billion
FY 97	\$17 billion
FY 96	\$14 billion

SCHEDULE OF INVESTMENTS

The following shows the market value of the ASRS, ending June 30, 1999. Source: 1999 ASRS Financial Report, page 50.

	Market Value
Corporate Stocks	\$15,741,070,594
Fixed Income Securities:	
— Corporate Bonds	2,542,935,979
— Government Bonds	3,485,835,901
— Real Estate Mortgages	257,275,358
— Temporary Investments	612,985,531
Net Receivables on Transactions:	<u>(220,066,448)</u>
TOTAL PORTFOLIO	\$22,420,035,915*

BRIEF OVERVIEW OF ASSETS AND LIABILITIES

ASSETS

Cash in Bank	\$3,066,500
Receivables	\$267,038,142
Investments	<u>\$23,730,590,293</u>
TOTAL ASSETS	\$24,000,694,935

LIABILITIES AND RESERVES

Payables	\$1,573,613,271
Reserves for Benefits	<u>\$22,427,081,664</u>
TOTAL	\$24,000,694,935

STATEMENT OF PLAN NET ASSETS AND FUND BALANCE
 – Actuarial Valuation for Fiscal Year 1998**

Actuarial accrued liabilities

A. Liabilities due to members' benefits

1. Active members

a. Retirement benefits	\$6,089,546,923
b. Health insurance premium supplement	463,622,109
c. Disability benefits (deferred retirement)	120,218,282
d. Pre-retirement death benefits	183,995,487
e. Withdrawal benefits	<u>218,320,588</u>

Total active members \$7,075,703,389

2. Inactive members

327,550,887

3. Retired members and beneficiaries

5,403,523,500

4. Disabled members (deferred retirement)

117,394,700

5. Benefit increases for other-than-plan participants

9,578,900

Total present value of benefits \$12,933,751,376

B. Reserve for "Excess Investment Earnings" benefit increase 704,605,130

C. Total actuarial accrued liability \$13,638,356,506

Actuarial value of assets \$16,168,476,386

Unfunded actuarial accrued liability (actuarial surplus) \$(2,530,119,880)

Amortization of unfunded actuarial accrued liability \$(316,561,025)

Normal cost for the year \$540,458,020

Total contributions for the year (actuarial value) \$223,896,995

Total covered payroll (projected to 1997/98 plan year) \$5,164,127,651

Required contribution as a percentage of pay for Fiscal Year 1999-2000):

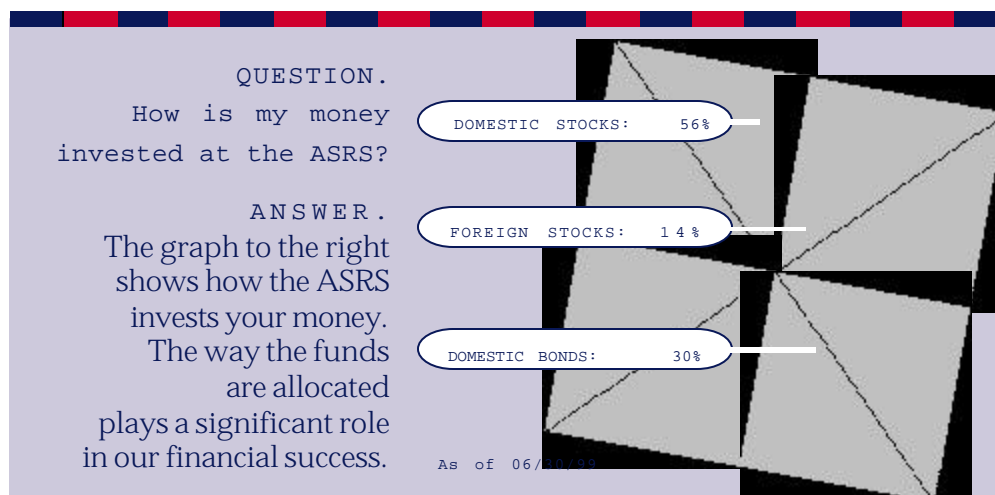
A. Employee portion 2.17%*

B. Employer portion 2.17%*

C. Total 4.34%*

*Does not include the additional 0.49% contribution to fund the long-term disability program.
 Parentheses denote surplus amounts and reduce future liability.

** Actuarial valuation for Fiscal Year 1999 not available at the time of printing of the annual report.



PRE-RETIREMENT
 SEMINARS

Continued from page 3

Wed., May 13, 2000
 ASRS Tucson Board Rm
 7660 E Broadway, Ste 108
 9 a.m. to 3 p.m.

Wed., May 24, 2000
 ASRS Phoenix Board Rm
 3300 N Central Ave, 10th Flr
 9 a.m. to 3 p.m.

Wed., May 24, 2000
 ASRS Tucson Board Rm
 7660 E Broadway, Ste 108
 9 a.m. to 3 p.m.

Wed., June 14, 2000
 ASRS Tucson Board Rm
 7660 E Broadway, Ste 108
 9 a.m. to 3 p.m.

Sat., June 17, 2000*
 ASRS Phoenix Board Rm
 3300 N Central Ave, 10th Flr
 8:30 a.m. to 12: 30 p.m.

Thurs., June 22, 2000
 Chandler Unified Sch Dist
 1525 W Frye Rd, Board Rm
 9 a.m. to 3 p.m.

Wed., July 12, 2000
 ASRS Phoenix Board Rm
 3300 N Central Ave, 10th Flr
 9 a.m. to 3 p.m.

Thurs., July 13, 2000
 Estrella Mountain
 Community College
 3000 N Dysart Rd.,
 Estrella Hall, 2nd Floor
 9 a.m. to 3 p.m.

healthQ & A insurance

This month's column features insurance questions related to prescriptions.

QUESTION: What is the difference between brand and generic prescription drugs?

ANSWER: Prescription drugs consist of active and inactive ingredients. The active ingredients cause the medicine to do its job. For instance, an antibiotic's active ingredients fight the infection. The inactive ingredients are the binding ingredients; the "glue" that holds the medicine together.

By law, the active ingredients in brand and generic prescription drugs must be the same. The inactive ingredients can differ. One example of differing inactive ingredients is color. It is sometimes different between generic and brand-name prescription drugs.

QUESTION: Are there other differences between brand and generic medicines?

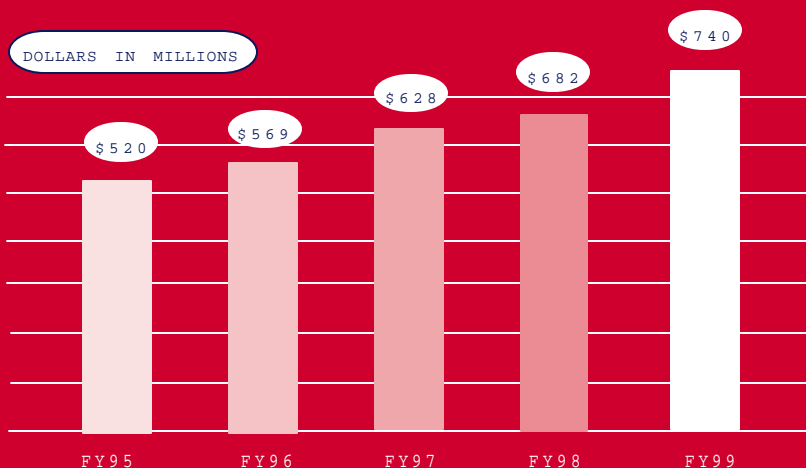
ANSWER: Cost — The cost of generic medicine is generally much lower than that of brand-name drugs. Specific questions about any other differences between brand and generic prescription drugs should be directed to your health care provider, either your doctor or pharmacist.

QUESTION: Can the lower cost benefit me?

ANSWER: Yes. Lower costs for prescription drugs result in lower costs to your insurance carrier. This ultimately can result in less, if any, increase in premiums from year to year.

For your Benefit ...

The mission of the ASRS is to contribute toward its members' long-term financial security. In Fiscal Year 1999, the ASRS paid \$740 million in benefits.



RETIREMENT NEWS BRIEFS

ASRS announces PBI for 2000-2001 fiscal year

A permanent benefit increase (PBI) will be included in the July 1, 2000, pension check for all eligible ASRS members. To be eligible for this year's PBI, formerly referred to as a COLA, the following must apply to you:

- You must be at least age 55 as of July 1, 2000, **and**
- You must have retired prior to July 1, 1999, **and**
- You must have retired under the ASRS defined benefit program, also called the "Plan."

This year's PBI is \$29.49 per year for each year of your credited service at retirement. Partial years are included in this calculation. For example, if you retired with 25 years of service, your annual PBI amount is \$737.25 (25 x \$29.49).

You can figure your monthly increase by dividing the annual PBI amount by 12 (\$737.25/12 = \$61.44 per month.)

Retired "System" members receive a separate excess earnings allocation as a "13th check," which is distributed in November. Therefore, System members are **not** eligible for the July 1, 2000, PBI.

ASRS recognized as second top performing fund in nation

The Arizona State Retirement System (ASRS) clinched the title of second top performing state fund in the nation.

In a recent study, produced by Pension Data Exchange, the ASRS ranked number two out of 54 other public state funds for its recent investment performance. The top two performing funds were both in Arizona.

Your Questions in Review

Quite often, we find that there are just some questions that always are asked. Below is some of the ASRS' most frequently asked questions and answers. For more information on the ASRS, please consult your ASRS Member Handbook, or visit us on the web at www.asrs.state.az.us.

Is the ASRS a 401(k) plan?

No, the ASRS is not a 401(k) retirement plan. It is a "defined benefit plan," which means your pension will be determined by a formula, not by the amount of money in your account.

What is the current contribution rate? How is it determined?

The total contribution rate for members during the 2000 fiscal year is 2.66% (2.17% + .49% for the Long-Term Disability program). The contribution rate is determined for every two years by an actuarial valuation as the rate required to fund future benefit obligations and to maintain the financial well-being of the Plan.

Can I contribute additional amounts to my retirement account?

No, ASRS rules do not permit voluntary contributions except for credited service purchases under the ASRS Service Purchase Program. Additional contributions would not affect your retirement benefit because your ASRS benefit is based on your years of service and salary; therefore, the amount in your retirement account does not affect your retirement benefit.

Can I borrow from my retirement account for emergency purposes?

No. The *Arizona Revised Statutes* do not allow the ASRS to lend you money from your account. Funds can be refunded only when you leave work with your ASRS employer.

When am I eligible to retire?

Normal retirement is the earliest you may retire with a full benefit as calculated by the ASRS benefit formula. Normal retirement occurs:

- when you reach age 65 years old, *or*
- when you turn 62 and 10 or more years of service, *or*
- when you have any combination of years of service and age, totaling 80 points. A point is equal to each year of service and each year of your age. For example, if you are 60 years old and have 20 years of service, you have 80 points.

However, at the ASRS, you also may be eligible to retire early. If you are at least 50 years of age with 5 or more years of service, you may retire before your normal retirement date with a reduced benefit.

RETIREMENT WORKSHOPS

The following is a list of upcoming workshops in Phoenix. **Due to limited space, advance registration is required.** Call (602)240-2000, or toll-free outside metro Phoenix at 1(800)621-3778, to register. Workshops are held in our Phoenix office at 3300 N. Central Ave., 10th Floor Board Room. They are designed for members who are retiring in two to five years and last approximately 3 hours.

APRIL

April 8, 2000	9 a.m.
April 12, 2000	1 p.m.
April 22, 2000	9 a.m.

MAY

May 6, 2000	9 a.m.
May 10, 2000	2 p.m.
May 20, 2000	9 a.m.

JUNE

June 7, 2000	8 a.m.
June 10, 2000	9 a.m.
June 21, 2000	8 a.m.
June 21, 2000	2 p.m.

JULY

July 8, 2000	9 a.m.
July 15, 2000	9 a.m.
July 26, 2000	8 a.m.
July 26, 2000	2 p.m.

RetirementNews

P.O. BOX 33910
PHOENIX, AZ 85067-3910

RETIREMENT BOARD

James Jenkins, *Chairman, Scottsdale*
Political subdivision member;
term expires 2002

Dr. Chuck Essigs, *Vice Chairman, Mesa*
Educator; term expires 2001

vacant, *Phoenix*
State employee member

Jim Bruner, *Scottsdale*
Public member; term expires 2002

Dr. Merlin K. DuVal, *Phoenix*
Retired member; term expires 2002

Alan Maguire, *Phoenix*
Member At Large; term expires 2000

Norm Miller, *Phoenix*
Public member; term expires 2001

Karl L. Polen, *Phoenix*
Public member; term expires 2001

Ray Rottas, *Paradise Valley*
Public member; term expires 2000

ADMINISTRATION

LeRoy "Gil" Gilbertson, *Director*
Anthony Guarino, *Deputy Director*
Tom Augherton, *Deputy Director*
Paul Matson, *Chief Investment Officer*

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Call toll-free at (800)621-3778

WEBSITE

www.asrs.state.az.us

ASRS *Retirement News* is published quarterly for retired and non-retired members of the Arizona State Retirement System. We welcome letters from our readers and encourage you to address your comments to:

Kim Kaan, Editor
ASRS *Retirement News*
P.O. Box 33910
Phoenix, AZ 85067-3910

The ASRS complies with the *Americans with Disabilities Act of 1990*. This newsletter is available in an alternative format upon request. Contact Maria Antongiorgi, ADA Coordinator, at (602)240-2139. Information in the newsletter about retirement laws or policies is only a guide. If a conflict arises between information contained in the newsletter and the law, the law takes precedence.

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RETIREMENT SYSTEM

RETIREMENT NEWS BRIEFS (continued)

ASRS provides toll-free telephone number
for members living outside metro Phoenix and Tucson

Because of the increasing cost, the ASRS will no longer accept telephone calls from within metro Phoenix and Tucson that are dialed from our toll-free number. If you live in Phoenix and need to reach the ASRS, our telephone number is (602)240-2000. If you live in Tucson and need to reach us, the number is (520)239-3100.

2000 ASRS Retirement Board Meeting Schedule

ASRS Retirement Board meetings are held in the 10th Floor Board Room, Phoenix Office, at 3300 N. Central Ave. All meetings start at 9 a.m. The November meeting will be held in the Tucson ASRS Office, 7660 E Broadway, Suite 106. The June meeting will be held in Flagstaff, tentatively scheduled at the Little America Hotel, at 2515 E Butler Ave.

April 21	May 19	June 15**
July 21	August 18	September 15
October 20	November 17*	

* Denotes Tucson meeting

** Denotes Flagstaff meeting

ASRS